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Japan - Ready Investment file
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Japan - Commerce Tr.
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DEPARTMENT OF STATE A/CDC/DIR
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Yoshida Paper
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Probable Japanese Position:
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1. Japan has been encouraging American investment by guaranteeing convertibility of income from approved investments.
2. Japan must be more cautious in future about approving investments for guarantee of convertibility because of risk investment may affect its foreign exchange position adversely rather than favorably.

U. S. Position:

1. At present American investors who cannot obtain from the Japanese Government a guarantee of convertibility of income are reluctant to invest because there is no assurance at all of conversion into dollars of income from investments which have not been approved.
2. As administered the Foreign Investment Law appears to have become an obstacle to investment rather than an aid. It is suggested the Japanese Government consider alterations of the administration or amendment of the law to provide greater flexibility, perhaps in the direction of guarantees of convertibility conditioned as actual foreign exchange earnings or savings.

Discussion:

Over the past year a number of American companies including Parke-Davis, Worthington, Pfandler, Sperry, John Manville, General Foods, Studebaker, Schaeffer Ram, Coco-Cola, Armstrong Cork and Singer have had difficulty in securing approval of the Japanese Government under the Japanese Foreign Investment Law, for proposed investments in Japan. Ambassador Allison early this year

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discussed the subject with both Yoshida and Okazaki. On May 31 Okazaki wrote Allison that it was Japan's policy to welcome foreign investment, even in cases where investments competed with domestic industry, but that Japan had to give careful study to any investment which would result in an increase in luxury items or purely non-essential commodities in the domestic market. On July 20, Ambassador Allison replied that Japan was committed under the FCN treaty to permit American investments with the sole qualification that restrictions might be imposed if necessary to protect Japan's monetary reserves. Although we have challenged Japan's failure to approve American investments under its Foreign Investment Law as in violation of the FCN treaty, Japanese officials have now explained that approval is not necessary to the making of an investment. Approval is necessary only to securing a guarantee of convertibility, which the Japanese are under no obligation to give. It remains true, nevertheless that American investors cannot be expected to invest in Japan without some assurance of convertibility. By failing to give assurances in cases where proposed investments may reasonably be expected to improve Japan's foreign exchange position, the Japanese are acting contrary to the spirit of the FCN treaty.

~~During the past few weeks we have been discussing with the Japanese~~ ^{recently discussed} officials here a test case, that of the proposed investment of Singer Company in Japan. The Embassy has reported that Okazaki has explained his government's failure to approve the investment as due to political pressure from the Japanese sewing machine producers. Officials of the Japanese Finance Ministry here in Washington, however, say the reason is Japan's precarious foreign exchange position and uncertainty over whether predicted foreign exchange earnings from the Singer investment will actually materialize. At Singer's request we have now asked

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the Embassy to explore with the Japanese the possibility of their giving Singer a conditional guarantee of convertibility - a guarantee that Singer may remit income from its investment to the extent of actual earnings of foreign exchange which can be attributed to the investment. This approach should serve to smoke out the real reason for Japan's reluctance to approve the Singer proposal.

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